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E-Chain Solutions

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e-Chain Solutions Limited

Leading integrated e-chain management

White Paper 4

Efficient Foodservice Response (EFR)

In late 1997 Paul Heathcote, who had previously worked on the development of the related Efficient Consumer Response (ECR) with, amongst others RHM Foods, Tesco and Sainsbury, began working on the development of Efficient Foodservice (EFR) projects for a major Foodservice manufacturer. In April 1998 Heathcote attended the 2nd EFR Conference in Chicago and was subsequently involved in the inaugural meeting of the UK working party, chaired by the Institute of Grocery Distribution, which was formed to assist the industry in developing EFR in the UK. Today, Heathcotes' company, E-Chain Solutions Ltd, remains the only non **food** company represented on the UK EFR Group.

About Foodservice- a brief overview

Foodservice covers the market involved in "eating away from home", and has traditionally broken down into three sectors.

CLASSIC	ACTIVITY	COST
Restaurants	Hotels	Staff Catering
Fast Food	Pubs	Health Care
Cafes	Travel	Education
Takeaways	Leisure Facilities	Services and Welfare

The UK market is estimated to be worth £3 billion and covers 300,000 outlets, with the bulk of the **supply** route being via grocery and specialist wholesalers together with catering **supply** companies ((85%).

Whilst the Foodservice market has traditionally concentrated in providing out of home eating opportunities, these sectors are now being effected by the growth of the retail sector and their provision of ready meals. The role of foodservice operators has taken on greater importance in the face of diminished time and interest in **food** preparation on the part of the consumer. Families in which both adults work outside the home are now the norm—not the exception. As such, it's hard to find the time to put a home-cooked meal on the table, but, even in the face of such difficulty, the consumer does not want to sacrifice quality in the name of convenience. Today's consumer is value-conscious, cash rich and time-poor. Both the eating away from home and the home meal market represents an incredible growth opportunity for the foodservice industry. As the home-prepared meal becomes less common, consumers are seeking cost-effective, commercially available meal solutions. The foodservice industry has an opportunity to increase its "share of stomach" not only by improving its traditional offering, but also by capitalising on the market for take-home prepared meals and other emerging markets. It can only achieve this by matching or exceeding the retailers offering in terms of quality and value. The reduction of costs by improving **supply chain** efficiencies in the same way that the retailers have achieved over the last five years represents the best opportunity for Foodservice to improve value.

About EFR- a brief overview

Efficient Foodservice Response (EFR) began as an American, industry-wide effort to improve efficiencies in the foodservice **supply chain** that links manufactures to wholesalers to operators tables.

A report, Enabling Profitable Growth in the **Food-Prepared-Away- From-Home** Industries, which serves as a blueprint for the project was published in early 1997.

The report documents \$14.3 billion in annual **supply chain** savings that may be achieved across five strategies - Equitable Alliances, **Supply Chain** Demand Forecasting, Foodservice Category **management**, Electronic Commerce and Logistics Optimisation.

The purpose of EFR is to simplify the flow of products, information and funds within the foodservice **supply chain**, thereby making the **chain** more efficient. The template for EFR is Efficient Consumer Response (ECR) which revolutionised the grocery industry in the UK in the 90's. ECR used cross-docking, category **management**, continuous replenishment, activity based costing and electronic data interchange, to significantly improve efficiency in the retail grocery **supply chain** enabling cost reduction and profit growth.

The Five Strategies of EFR

Efficient Foodservice Response is based on five strategies that include a number of interrelated initiatives. These strategies, whilst initiating from the USA are no less valid for the UK and have been adopted very much in their entirety. The main area of difference is the UK's already widely adopted implementation of bar-coding product, although their effective use in Foodservice

remains an issue.

Strategy 1: Equitable Alliances

Mutually beneficial business practices. The Equitable Alliances strategy is based on the idea that by reducing non-value-added costs, all trading partners and in the end the consumer, benefit.

- Activity based costing (ABC). Through this process, trading partners can get to know the true cost of functions within their own operations. With this knowledge, they understand the cost of doing business, from placing an order to correcting a mis-shipment.
- Initiative bundling. Trading partners make an investment in technology that the others will benefit from, and these are bundled together so that all trading partners may gain.
- Value based incentives. This concept provides clear economic incentives to participants for reducing the costs of their business transactions with trading partners.

Strategy 2: Supply Chain Demand Forecasting

The driving principle behind this strategy is that each member of the **supply chain** is ultimately driven by the same demand source -- the consumer. The strategy involves the flow of demand and planning information in both directions within the **supply chain**. Many of these problems stem from a lack of communication—of not knowing what's going on at the other end of the **chain**. Sharing information is one of the greatest opportunities, and one of the biggest keys to success for all members of the **supply chain** in the coming years.

- Standard Product Identification and Bar-coding. Bar codes on unit, case and pallet packages provide the framework for logistics processes and information systems that act as connectors between manufacturers, wholesalers and operators. Bar codes are used for implementing many of the EFR principals. Standard product identification is a fundamental bar-coding concept and crucial to EFR's effectiveness.
- Common product databases. An evolution of bar-coding, this initiative calls for the creation of a central network from which buyers and sellers can access consistent product information.
- Demand data sharing. This represents a direct link between **supply chain** trading partners and consumers. Opening the flow of information about consumer foodservice sales back up the **supply chain** will allow wholesaler and manufacturer trading partners to plan accurately.
- Market-level forecasting. Suppliers can reduce inventory as more accurate and complete demand information allows them to better manage production and replenishment cycles.

Strategy 3: Electronic Commerce

This strategy can have the most immediate effect in reducing operating costs and error and transaction cycle time. It is a pivotal EFR principle.

- Simplified business practices. The sale of products can be a simple three-step process: order, shipment, and payment.
- Product maintenance electronic data interchange (EDI). Accurate product, price and promotion information, readily available up and down the **supply chain**.
- Revenue cycle EDI. Smooth, continuous information flow through the use of automated,

standardised transaction formats.

- Invoice-less payment. Payments can be made electronically without physical invoices when trading partners have the right information at the right time.

Strategy 4: Logistics Optimisation

Through the forging of strategic alliances and the implementation of "common sense" tactics, product is efficiently transferred from points of **supply** to points of consumption and the **supply** channel becomes a streamlined and more efficient machine.

- Direct shipment. For **fast**-moving products, the most cost-effective and efficient transportation may be direct shipment from manufacturer straight to wholesaler.
- Slow-mover consolidation. Slow-moving products from many suppliers can be consolidated at a redistribution facility and shipped together as full truckloads.
- Shared distribution. When two manufacturers have less than a truckload and share the same destination point, they can cut waste from the system by co-ordinating and sharing transport space and cost.
- Co-ordinated transport. Maximising the transport routes so as to accomplish multiple tasks.
- Cross-docking. Co-ordinating delivery and pick-up times, production schedules and demand cycles to create a system in which there is no need for storage at a distribution point.

Strategy 5: Foodservice Category Management

Another important principle of EFR is efficient **management** of product categories. Foodservice category **management** provides tools to assist companies in enhancing consumer value by balancing variety and costs.

- Balanced variety. Improved product varieties can be achieved through co-operation between operators and their wholesaler trading partners.
- Product deletions. Understanding when sales of a product amount to less than costs is a key in evaluating product retention.
- New product introductions. Technology and market information should be used to gauge the timing and likelihood of market receptivity to a new product.
- Centralised conversion. Moving **food** preparation tasks to the most efficient point in the **supply chain** is an important concept. Fully prepared or partially prepared produce is a good example of this initiative in action.

The IGD is sponsoring a number of pilot projects for the UK, particularly in the areas of Logistics Optimisation and Category Management.

e-Chain Solutions has been commissioned by the IGD to undertake the largest ever survey of e-Business usage in the foodservice and catering industry and to identify e-Business solutions to known problems. These findings will be presented to a major industry conference in April.

In addition, e-Chain Solutions is undertaking a pilot project with a major manufacturer and wholesaler to improve and simply the flow of information between them.

e-Chain Solutions... Leading integrated, e-chain management

e-Chain Solutions Limited

have proven applications and processes for demand and **supply** chains.

can securely connect commercial communities.

provides cost effective solutions for the e-business environment.

supports in the building of business relationships.

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